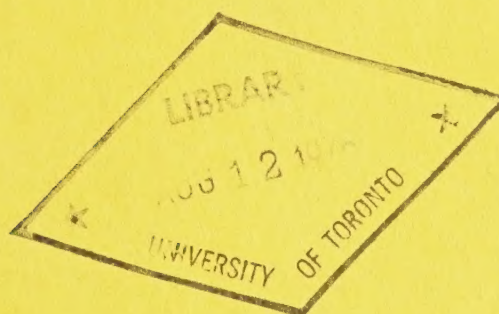


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Anti-Inflation Program: The First Six Months



Ontario

Ministry of Treasury
Economics and
Intergovernmental
Affairs

May 1976



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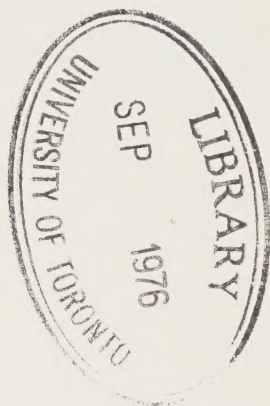


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INTRODUCTION AND SUMMARY

The Anti-Inflation Program was a response to a fundamental economic crisis in Canada. The economy had suffered under the effects of spiralling inflation for several years, and there was general uncertainty as to whether price stability could be regained. Canadian prices and wages were outstripping those in the United States and our international competitiveness was seriously threatened. For some time, Ontario had called for national leadership to deal with this problem.

Federal initiative came six months ago with the anti-inflation plan, a program of price and income guidelines. While Ontario had some reservations about the federal proposal, it placed priority on coordinated national action to deal with a national crisis and therefore supported the program.

Accordingly, Ontario has, from the outset, cooperated fully with the federal program. The Province moved quickly to establish a Special Cabinet Committee and the office of a Provincial Coordinator to monitor and assess the AIP and ensure the most efficient possible operation of the program in Ontario. The Province was the first to sign an agreement with the federal government formally bringing in the provincial public sector.* In addition, the Province undertook

*An Agreement Between the Government of Canada and the Government of the Province of Ontario Regarding the Anti-Inflation Program, January 13, 1976.

to ensure that its rent review program was compatible with the national Anti-Inflation Program and also undertook a set of fiscal restraint policies to contain the growth of provincial spending. This report concentrates on evaluating the operation of the federal program in Ontario.

Six months into a program of this sort is still somewhat early to gauge its ultimate impact on a problem as fundamental and deep-rooted as inflation had become in this country. However, it is not too early to gauge the performance and nature of the operation of the program in Ontario and to get some impression of the future.

Prices and Profits

There was a significant moderation in wholesale prices over the first four months of the program, but this has not yet fed through to consumer prices. Inflation of the Consumer Price Index has, however, fallen off sharply as a result of declining food prices. The year-to-year growth in the April CPI was less than 10 per cent for the fifth month in a row.

AIB price rulings have picked up in recent weeks, reflecting both the AIB administrative build-up and an increasing willingness in business to test the anti-inflation rules.

Incomes

The AIB has reviewed more than 2,300 Canadian contract settlements since last October and has passed 92 per cent of these without comment. In Ontario, the Board had ruled on 121 wage settlements by the end of April. Where roll-backs have occurred, the average reduction has been about 20 per cent of the negotiated increase.

While average wage settlements in Ontario in the two quarters since Last October remain at pre-AIB levels, these averages would likely have been still higher without the anti-inflation guidelines. In the first six months of the program many contracts have been given "special consideration" and allowed through at levels higher than the guidelines. Among these there have been a significant number of public sector settlements, notably postal workers and teachers.

I. PRICES AND PROFITS

A. Performance

The Consumer Price Index indicates significant moderation of inflation since October 1975, but most of the slowdown has been in food prices. The decline in the food component prices is largely attributable to lower pork and beef prices. There has yet to be any significant moderation of price inflation in the other major CPI components -- housing and transportation.

The Anti-Inflation Board's survey of food prices indicates that in the first three weeks of April food prices continued their five month decline but turned up sharply in the fourth week of April. The upturn was due largely to price increases in beef, other meats, fresh vegetables and processed fruit. The AIB expects an increase of three to four per cent in retail food prices by early summer from the April low.

CONSUMER PRICE MOVEMENTS, PRE AND POST AIB

Table 1

	<u>% Change</u> <u>October 75/October 74</u>	<u>% Change (Annual Rate)</u> <u>April 76/October 75</u>
All Items	10.6	5.7
Food	12.6	-3.4
Housing	10.4	10.5
Clothing	4.4	6.8
Transportation	13.2	11.9
Health and Personal Care	11.4	8.2
Recreation, Education and Reading	8.8	3.5
Tobacco and Alcohol	11.1	6.3

Source: Statistics Canada

The Wholesale Price Index, a more telling indicator of leading price trends, has shown marked signs of broad stability in recent months. Since October, an actual decline of 0.8 per cent has been registered, with all components, except textiles, shown an optimistic trend.

While the stability in the general wholesale price index in recent months will take some time to filter through the economy, it does indicate more encouraging results in the CPI might be expected. However, this encouraging trend will likely be dampened by the effects of an increase in the price of oil and natural gas.*

*For an estimate of the impact of an oil and gas price increase on industry selling price, see Oil and Gas Pricing and Trade Competition: An Ontario View, Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, 1976.

WHOLESALE PRICE INDEX, PRE AND POST AIB

Table 2

	<u>% Change</u> <u>October 75/October 74</u>	<u>% Change (Annual Rate)</u> <u>February 76/October 75</u>
General Wholesale Index	5.3	-0.8
Vegetable Products	-10.8	-6.2
Animal Products	15.1	-8.3
Textiles	-2.8	6.0
Wood	16.0	3.3
Iron	12.5	6.7
Non Ferrous Metals	0.2	-6.9
Non Metallic Minerals	14.1	11.6
Chemical Products	10.2	-3.8

Source: Statistics Canada

B. AIB Rulings

As originally conceived, the federal controls program had legal application to approximately 6,500 companies with 500 or more employees and 3,000 construction companies with more than 20 employees. Subsequently, the sanctions of the guidelines have been expanded in five industries -- construction, trucking, grain handling, long-shoring and most of the shipping industry, where the companies bargain as a group in labour matters. This extension of the guidelines, retroactive to December 16, 1975, adds 41,000 companies, employing 500,000 workers, to the list of companies subject to formal controls. Most of these are construction firms with fewer than 20 employees. The AIB has also ruled that 26 automobile and property insurance companies will be subject to the review of the Board.

Reporting: In late January, 1976, the AIB initiated its reporting procedure on prices, profits, dividends and compensation by issuing compliance forms to the companies subject to the controls. Base period reports were to have been filed by March 16, 1976. Most firms must demonstrate their compliance with the guidelines annually, but approximately 1,200 of the largest companies with gross revenues of \$25 million are required to report every three months.

Pre-Notification: One hundred and seventeen large corporations and 19 major oil companies are required to notify the Board at least 30 days in advance of major price increases. Seventeen life insurance companies, accounting for approximately 75 per cent of all life insurance premiums written in Canada, are also on the Board's pre-notification list for 30 days notice of any price changes. Producers of a number of internationally traded commodities have been placed on a seven-day pre-notification list.

Professional Fees: An estimated 44,000 professional firms will be required to file compliance forms annually, with the AIB. Suppliers of professional services include the following: architects, consultants, chiropractors, dentists, engineers, lawyers and notaries, medical doctors and surgeons, optometrists, public accountants and veterinarians. The forms will enable the Board to act upon unjustified professional fee increases; the Board will make spot checks on returns filed and investigation will also be undertaken as a result of public complaints to the Board.

The reporting procedures will be simplified for professionals participating in province-wide fee schedules. In this instance, the province-wide fee schedule must be approved by the AIB and may not provide income improvements averaging more than the amounts permitted under part 4 of the guidelines dealing with compensation. Ontario negotiated a new fee schedule, approved by the AIB, which provides an average fee increase of 8.1 per cent for doctors working within the provincial medicare plan.

Bank Charges: The AIB has established profit margin guidelines for banks such that the ratio of a bank's pre-tax net revenue to total assets may not exceed 95 per cent of the average ratio of the five fiscal years ending October 14, 1975. Foreign revenues and assets are included in the calculations of profit margins for the base period, but revenues attributable to foreign operations are not restrained during the compliance period. Banks must not increase most service

charges above the levels of October 14, 1975, and are required to maintain the interest spreads in effect on October 14, 1975, between the rates paid on deposits and those charged on loans. Trust and loan company profit regulation, now under discussion, will likely parallel the controls applying to banks.

In the early months of the program, the AIB was fairly slow in getting the price ruling machinery moving. The Board attributed much of this to voluntary restraint on the part of companies and to informal discussions between the Board and companies resulting in voluntary roll-backs of proposed price increases and precluding formal intervention by the Board. In March, the AIB published a list of five such companies -- Banque Canadienne Nationale, Edmonton Journal, Sheraton Hotels, the Toronto Star and State Farm Insurance -- which had moderated price increases as a result of informal discussions with the Board.

More recently, the AIB has made a number of formal rulings on price increases for bread, coffee, copper and oil. The Board approved the bread and coffee price increases at the retail level which reflected increased costs to the supplier and were within the guidelines.

In March, Noranda Mines Limited increased its price of copper to reflect international market prices. Noranda had pre-notified the AIB, and the Board did not intervene. In April, Noranda announced a second price increase for copper and was advised by the AIB that the increase was in violation of the 90-day rule which prohibits a

supplier from raising a price more than once every 90 days. However, the AIB has recently placed copper producers and a number of other companies dealing in international trade commodities on a seven-day pre-notification list and waived the application of the 90-day rule. Producers of copper, lead, zinc, lumber, plywood, particle board, gold and silver will not be subject to the 90-day rule on pricing.

The AIB has intervened in proposed price increases for petroleum products supplied by Imperial Oil Ltd., Gulf Oil Ltd., Texaco Canada Ltd. and BP Canada. The Board reduced the average increase by about one-third of the proposed price increase. The AIB estimates that the difference between the proposed and allowed increases on Imperial Oil products represents about \$22.5 million in revenues for the last three quarters of 1976.

C. Excess Revenue

Under the price and profits guidelines, company earnings resulting from prices higher than those allowed under the guidelines are termed "excess revenue". Approximately 1,200 of the largest business firms in Canada must submit revenue calculations on a quarterly basis, while another 5,000 companies must report annually. Companies with excess revenue during the compliance period must submit a plan showing how they will moderate prices to place the company in compliance with the guidelines within two fiscal quarters.

Approximately 1,400 compliance period reports have already been filed with the AIB, and about 500 of these have been processed. Canada Starch Company Limited, the first company to have a plan for disposal of excess revenues accepted by the Board, proposes to dispose of \$6,000 in excess revenue, earned in the three month compliance period from October to December 1975, by reducing prices on two products.

D. Dividends

Regulation of dividends by the Anti-Inflation Act have tended to freeze, for one year, dividend payments at levels established prior to the introduction of the Anti-Inflation Program on October 14, 1975. There has been some concern expressed about the impact on the ability of firms to raise equity capital, and this aspect of the program will be reviewed after one year.

As of March 25, the AIB had ruled on 113 dividend cases and 35 companies were advised to moderate their dividend payments. Of the 35 companies subject to limited dividend payments, 14 were foreign-owned and 21 were Canadian-owned companies. Bell Canada, Dominion Stores, Kaiser Resources Ltd. and Ford Motor Company of Canada Ltd. are among the companies that have reduced dividends paid.

II. INCOMES

A. Settlements

Broad wage settlement trends have not shown any moderation in the six months since the introduction of the Anti-Inflation Program in October, 1975. However, wage increase settlements would likely have been still higher without the AIB guidelines. Wage settlement averages in the last quarter of 1975 and the first quarter of 1976 increased, although the manufacturing sector settlements showed a slight decline in the first quarter of 1976. Uncertainty surrounding the Anti-Inflation Program stalled the pace of negotiations in the fourth quarter of 1975 but the number of settlements reached in the first quarter of 1976 was nearer the normal rate.

BASE WAGE RATES SETTLEMENTS IN
ONTARIO, BY INDUSTRY (Per Cent)

Table 3

	<u>1975 Quarters</u>				<u>1976 Quarters</u>
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>First</u>
All Industries	14.9	14.6	12.9	13.5	14.3
Manufacturing	13.6	14.9	11.2	11.9	11.4
Non-manufacturing	15.3	14.6	13.0	14.6	15.8
- Public Sector	14.9	16.9	14.3	15.9	16.1
Construction	15.0	14.5	15.8	16.5	*

*No construction settlement in period.

Source: Ontario Ministry of Labour

Average increases in public sector wage settlements are slightly higher than the average of all industries. Overall, there does not appear to have been a significant shift to shorter contract periods, nor has the proportion of settlements containing COLA clauses declined.

More than 3,000 agreements, covering 40 per cent of Ontario employees are due for renewal in 1976.* The major negotiations during 1976, which include automotive, electrical products, meat packing, food retailing, education and health care industries, will be a crucial factor in determining the success of the Anti-Inflation Program. The automotive negotiations will involve some 52,000 Ontario employees, and the settlements will set the pattern for negotiations in the auto parts, farm equipment and rubber industries scheduled for the fall of 1976 and the spring of 1977.

B. AIB Decisions

In the first five and one-half months of the anti-inflation program, the AIB processed 2,304 wage settlements, 92 per cent of which were within the guidelines and were routinely approved. Of the 189 cases which required Board rulings, 170 or 90 per cent were considered excessive and reduced by the Board.

The number of wage settlements in Ontario ruled on by the Board totalled 121 at the end of April: 85 in the public sector and 36 in the private sector. School board wage settlements accounted for 70 of the public sector settlements, the majority of which covered a one-year contract.

In their rulings, the AIB rolled back all but 16 of the wage settlements in Ontario. The roll-back for public sector settlements was 5.33 percentage points; private sector roll-backs averaged 3.44 percentage points.

*Ontario Ministry of Labour.

ONTARIO WAGE SETTLEMENTS RULED ON BY AIB

Table 4

Settlements	No. of Contracts	Average Increase (%)		Average Roll-Back % of Negotiated
		Negotiated	AIB Reduced	
Public Sector	85	23.20	17.87	23.0
Private Sector	36	16.96	13.52	21.3

Source: Anti-Inflation Board

One of the most difficult areas for the AIB in Ontario over the past six months has concerned teacher settlements. The average level of negotiated teacher settlement in the 47 contracts reviewed by the Board between last October and the end of April was 26.0 per cent. On average, the AIB has approved first year settlements of these contracts at 20.6 per cent, significantly above both the guidelines and approved settlements in other sectors. The Board has generally cited an "historical relationship" with other teacher groups in its decisions.

In three Ontario cases, covering contract settlements at Rio Algom Mines, Denison Mines and the University of Toronto, both the employers and the unions petitioned the Board regarding its original ruling. In the light of "pertinent, additional information", submitted by the employers, the AIB revised its decisions and increased the allowable wage settlements. In each case, the revised ruling allowed an increase of approximately one percentage point less than the negotiated settlement.

III. OTHER ISSUES

A. The Administrator

Administrator Donald Tansley has ruled on one contravention of an AIB ruling involving the Irvine Pulp and Paper Ltd. and 500 employees. The AIB had rolled back a 23.8 per cent wage increase to 14 per cent; the Administrator upheld the ruling and ordered the company to pay \$125,000 to the federal government. Of that sum, \$100,000 represented the company's overpayment to its employees and \$25,000 was a penalty for contravening the AIB ruling. The Administrator's order to uphold the AIB roll-back was appealed to the Cabinet, by the union, but the appeal was turned down.

Subsequent to this case, the appeal procedure was altered, under amendments to the legislation introduced by the government, so that disputed AIB rulings may be referred to the Administrator for confirmation without waiting for contravention by the parties to the contract. Also, any party directly affected by an order of the Administrator can appeal to the Appeal Tribunal whereas, previously, only the party named by the Administrator in his decision could appeal the order.

The Administrator has warned that parties appealing an AIB ruling should be aware that "unless their case is strong, the parties seeking a reference run the risk of ending up with less than the AIB is willing to grant". The Administrator's decision could be

based on a different set of facts than those available to the AIB because his powers to seize documents and require information are broader than the Board's powers. The Administrator stressed that he "is bound to apply the law and guidelines as they exist".

B. Appeal Tribunal

The rules of procedure for hearing appeals have been tabled in the House of Commons. All documents to be referred to at the hearings must be filed with the Tribunal. No expert witness can testify unless their evidence is filed in advance and they are available for cross-examination. The functions of the Appeal Tribunal will be performed by members of the Tax Review Board when the Board's authorizing legislation is amended to permit its members to sit on other boards.

C. Provincial Participation

Eight provinces have signed agreements with the federal government placing their provincial public sectors under wage and price controls. Newfoundland, Nova Scotia, Prince Edward Island, New Brunswick, Alberta, Manitoba and Ontario have entered into agreements with the federal government under Section 4(3) of the Anti-Inflation Act, placing provincial public sectors under the federal controls.

Quebec has enacted its own anti-inflation legislation and entered the program under Section 4(4) of the federal Anti-Inflation Act; Quebec will administer the federal controls in the provincial public sector and the construction industry.

British Columbia has introduced legislation to cover that province's entry into the federal program for a term of one year, but no agreement has yet been signed with the federal government.

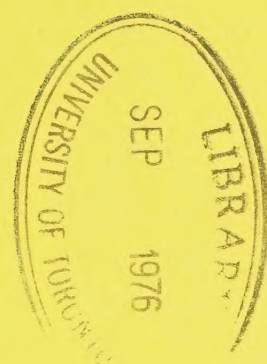
Saskatchewan has established the Saskatchewan Public Sector Price and Compensation Board to enforce the federal guidelines in that province's public sector.

D. Constitutionality

The federal government has asked the Supreme Court to rule on the constitutional validity of the Anti-Inflation Act and the Ontario agreement which was authorized by Order-in-Council. The hearing is set for May 31, 1976, and eight labour groups and five provinces will present arguments; the provinces are Ontario, British Columbia, Manitoba, Newfoundland, Saskatchewan and Alberta; the labour groups include the CLC, four Ontario teacher unions, CUPE and one of its locals, and the Ontario Public Service Employees Union. Saskatchewan and Alberta have indicated that they will argue against the constitutionality of the legislation.

The legality of the Ontario agreement is also being challenged in two cases before the courts involving the AIB rulings on the Renfrew School Board and Secondary School Teachers Agreement and the University of Toronto and Library Technicians Agreement. The Ontario Court of Appeal has deferred proceedings in the Ontario cases, pending the outcome of the case before the Supreme Court of Canada.

L.L.B.O. and L.C.B.O workers have announced their intentions to institute legal actions against the Ontario Government for refusing to honour the terms of a binding arbitration award that was rolled-back by the Anti-Inflation Board.





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